Policies, Processes, Systems and People

Transforming the Penguin Random House Supply Chain

Annette Danek, Penguin Random House
Larry Perlov, Illumiti

September 7-8, 2017

UTAH OPS & GOLDRATT CONSULTING

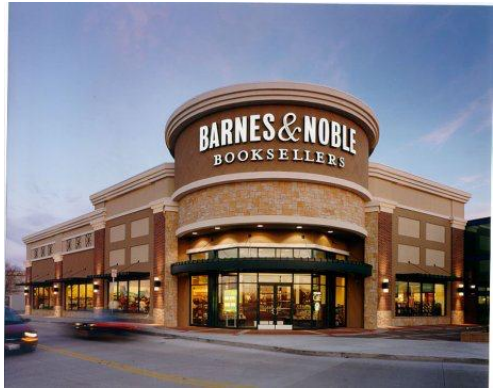
PRESENT: BUILDING ON SUCCESS 2017

BREAKTHROUGH RESULTS FOR GOVERNMENT AND BUSINESS

GOMB | goldratt CONSULTING

THE STORY

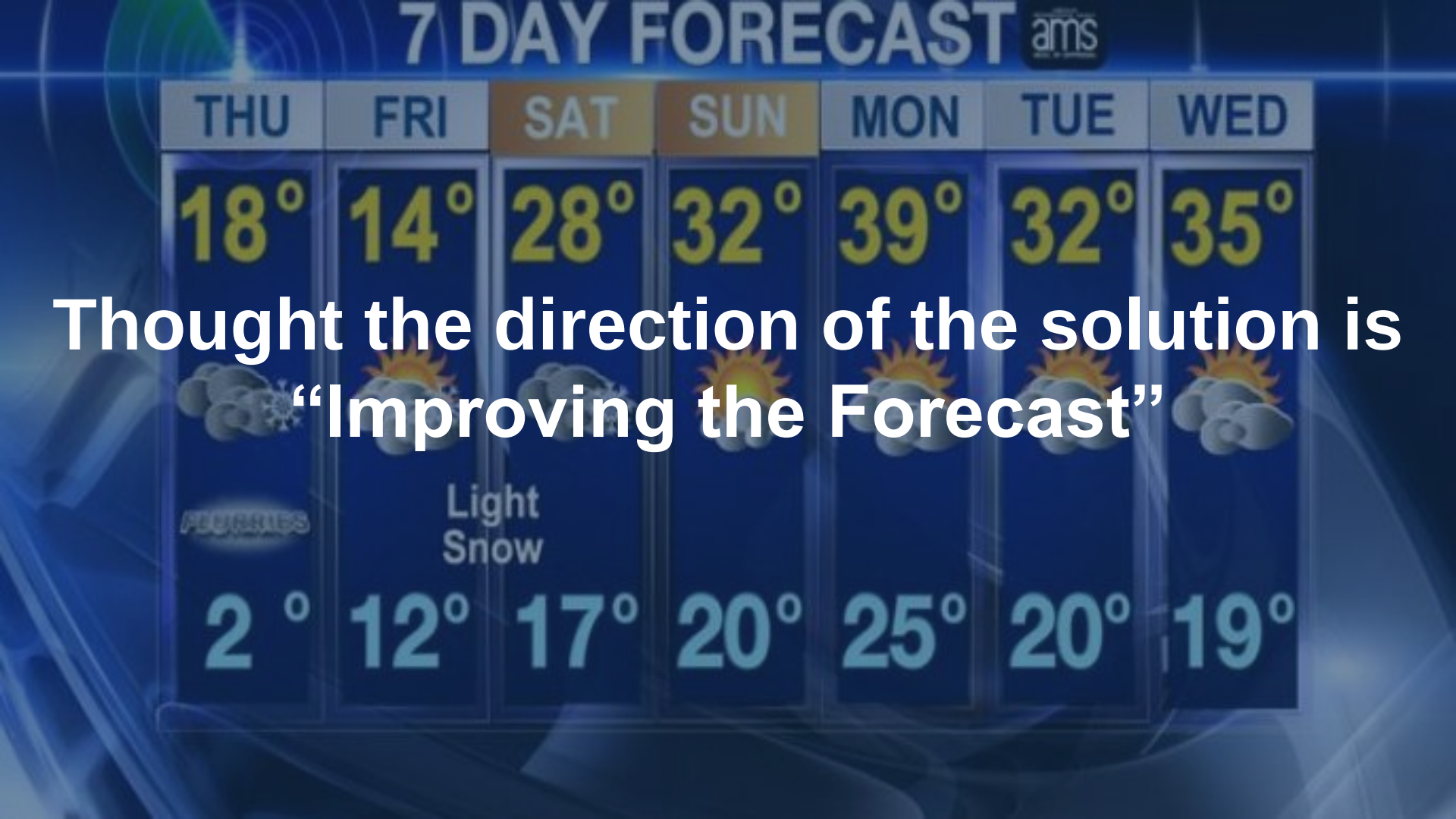
2007



May 2007 — May 2008 — July 2008 — Jan 2009 — July 2009 — 2017

30%-35% Returns…
industry standard in the US…

Thinking of implementing APO



Thought the direction of the solution is "Improving the Forecast"

The Call…

May 2007 | May 2008 | July 2008 | Jan 2009 | July 2009 | 2017

Acknowledge

Alan Barnard

Goldratt Research Labs

Key to getting the initiative done

When Eli heard – he got very excited and offered to personally engage

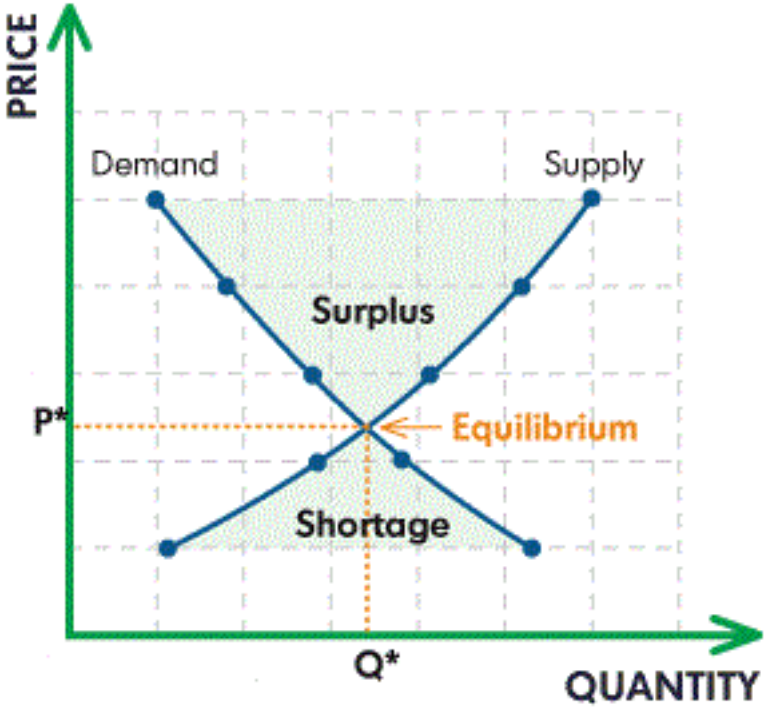
Some hesitation to talk to “another expert”….

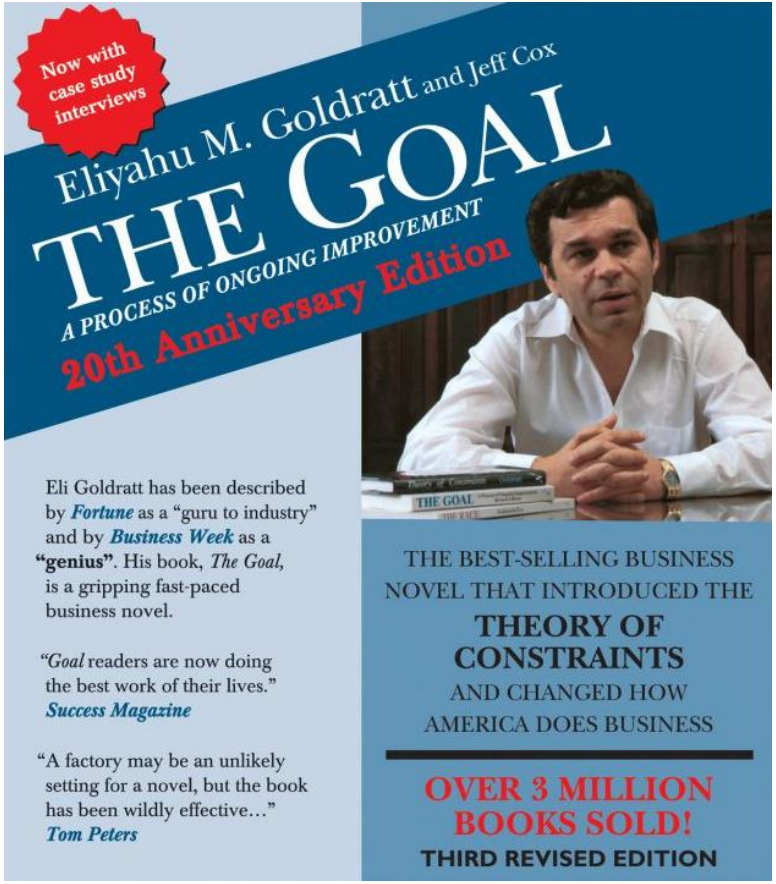
“This problem is endemic to the Publishing Industry”

The call with Alan was a turning point.

No talk of technical solutions.

Just insightful questions


PRICE
Demand
Supply
Surplus
P*
Equilibrium
Shortage
Q*
QUANTITY


Now with case study interviews
Eliyahu M. Goldratt and Jeff Cox
THE GOAL
A PROCESS OF ONGOING IMPROVEMENT
20th Anniversary Edition
Eli Goldratt has been described by Fortune as a "guru to industry" and by Business Week as a "genius". His book, The Goal, is a gripping fast-paced business novel.
"Goal readers are now doing the best work of their lives." Success Magazine
"A factory may be an unlikely setting for a novel, but the book has been wildly effective…" Tom Peters
THE BEST-SELLING BUSINESS NOVEL THAT INTRODUCED THE
THEORY OF CONSTRAINTS
AND CHANGED HOW AMERICA DOES BUSINESS
OVER 3 MILLION BOOKS SOLD!
THIRD REVISED EDITION

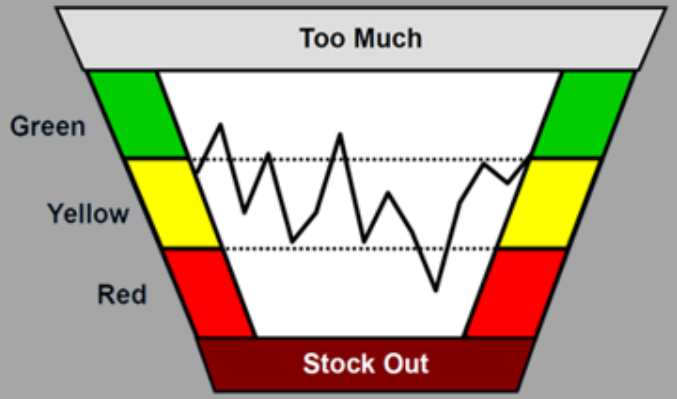
RAW MATERIALS
SUPPLIER
MANUFACTURER
DISTRIBUTOR
RETAILER
CONSUMER

Rounding to a full carton

Minimum order quantities

Increased the cycle time

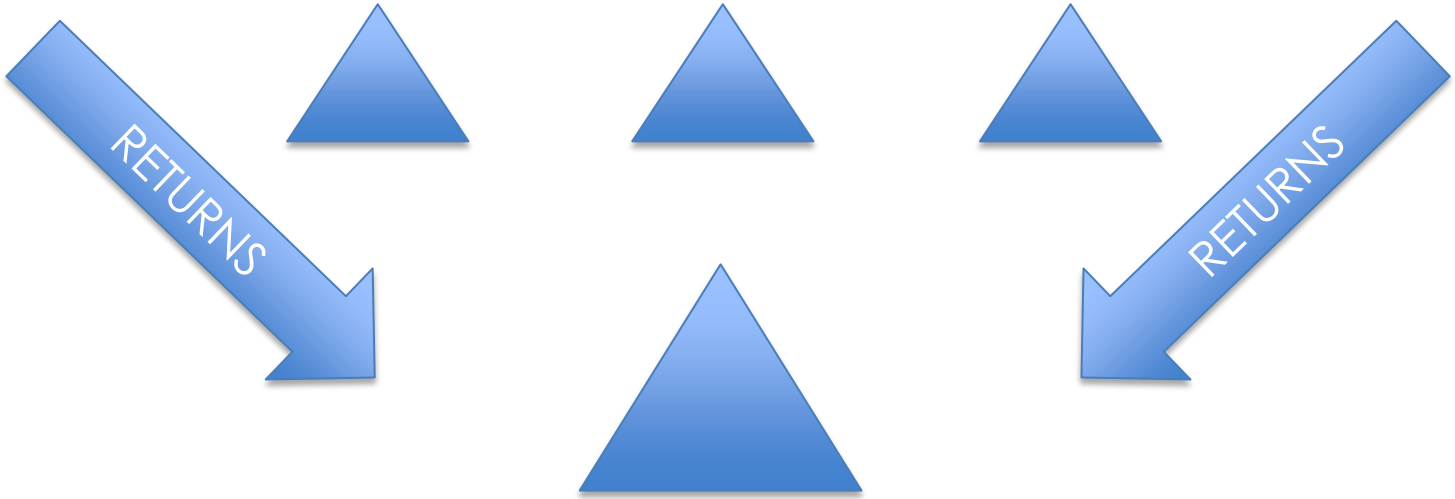
Insight:
Surplus vs Shortages



For a book store, shelf space and cash are the main constraints

Retailers

Distributors



RANDOM HOUSE

Was the impact of stock-outs – especially on the faster runners - greater than the cost of the returns?

Ignited a passion within a group of Supply chain leaders.
Was there a shortage problem in addition to an overstock problem?

Engagement with Eli

Meeting in Amsterdam
May 2008

The Problem

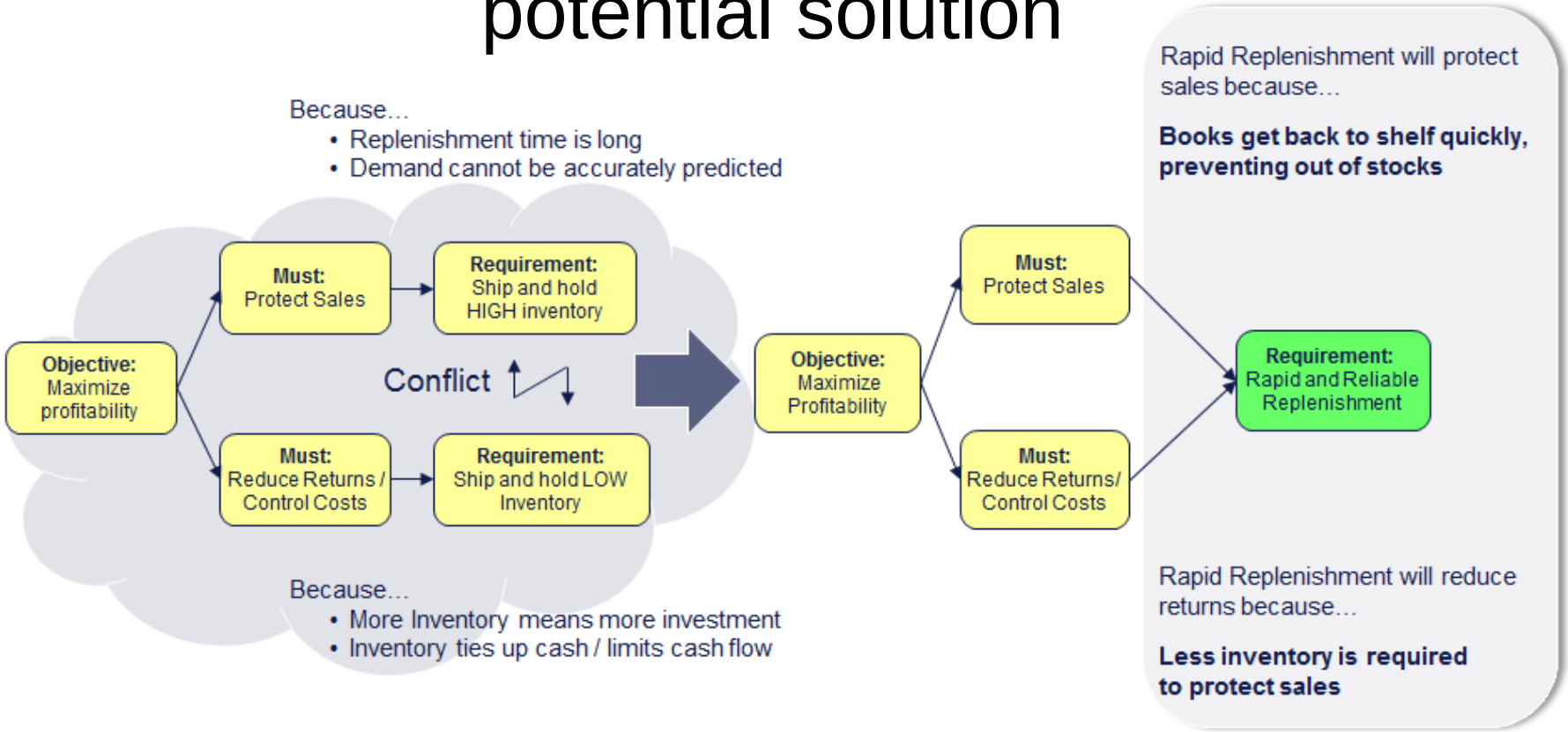
Re-order frequency was inconsistent and long
(weekly at best)

Shipping policy was “minimum quantities”

“Push” policy from sales
“pile ’em high… watch’em fly”

Small quantities on hand at retail per SKU

We identified our core conflict and potential solution



Consumption Based Replenishment

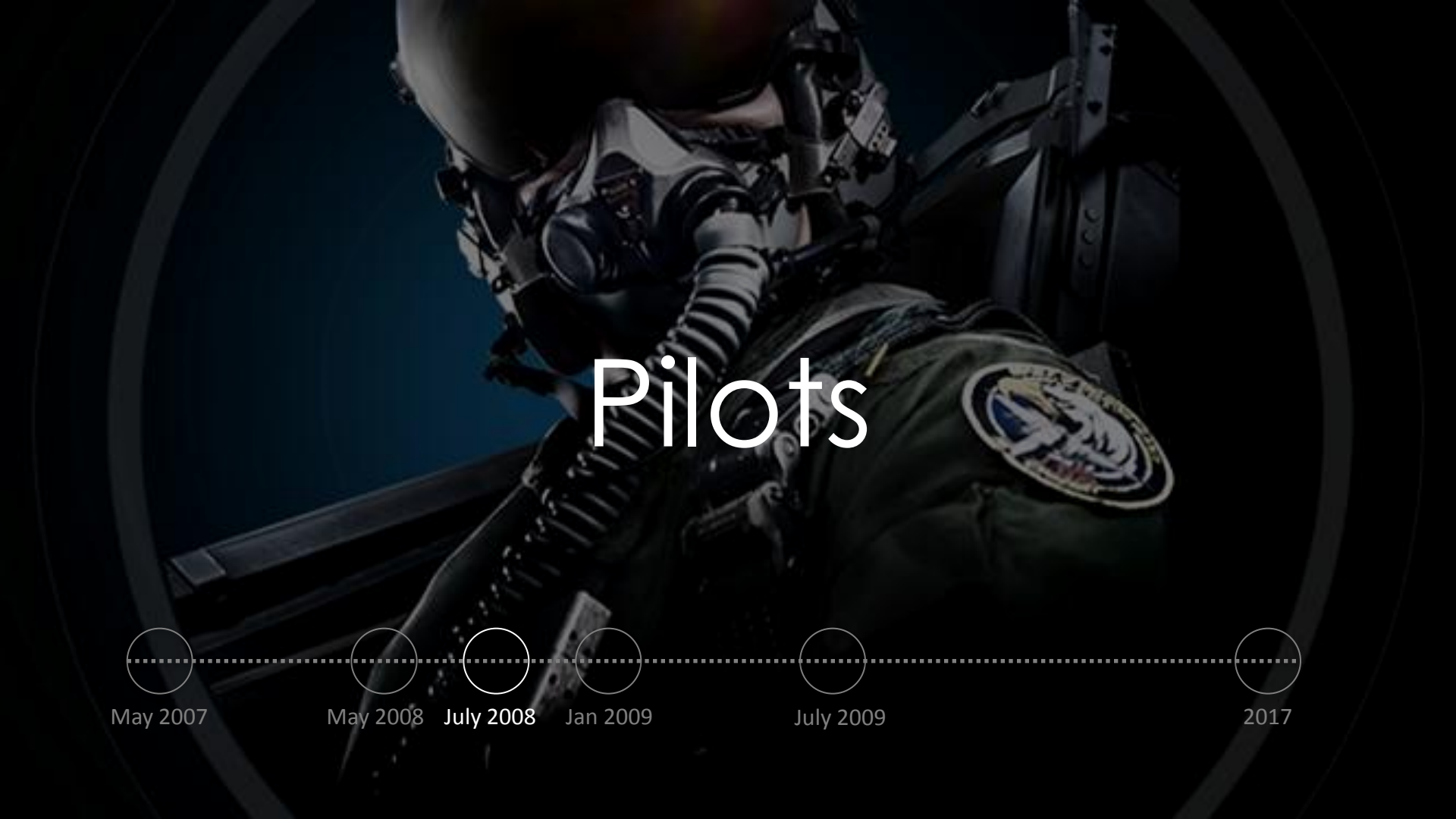
Customer Order more frequently
(daily what was sold that day)

RH Ship daily what was ordered (if possible)

Develop logic for “optimal on hand quantity at store”

Eli is super excited and motivated (cares about the industry personally)

But - need to prove this to rest of leadership team / others in org….
“We have been living this for decades…”


Pilots
May 2007
May 2008
July 2008
Jan 2009
July 2009
2017

12 Bookstores

50 titles (45 currently on sale and 5 titles that would be new during the test period)

replenish to store in 36-48 hours what was sold that day

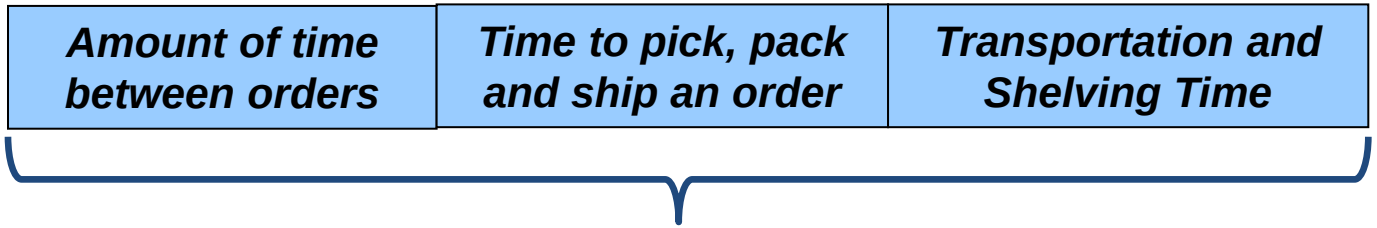
Total Replenishment Time reduced by

86%

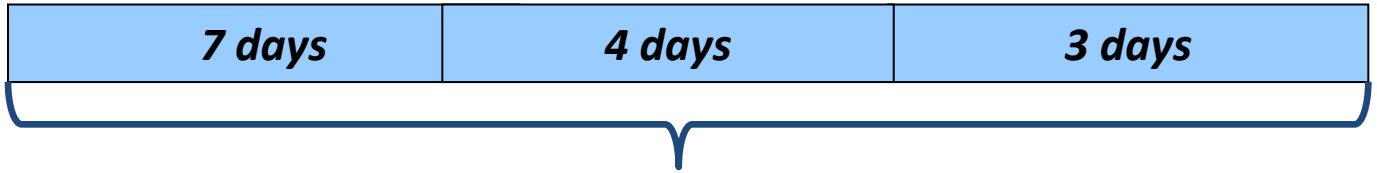
Total Replenishment Time - Initial State

A book is purchased at store/online

A book is back on the shelf/in DC



Rapid and Reliable Replenishment Time



14 Days

Total Replenishment Time - Pilots

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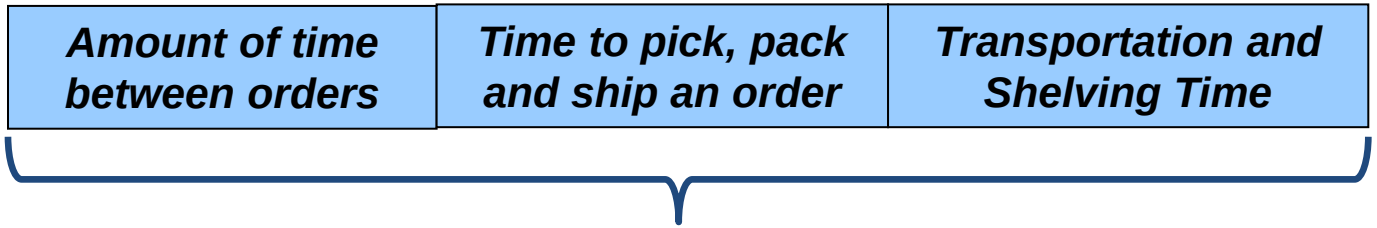
A book is back on the shelf/in DC



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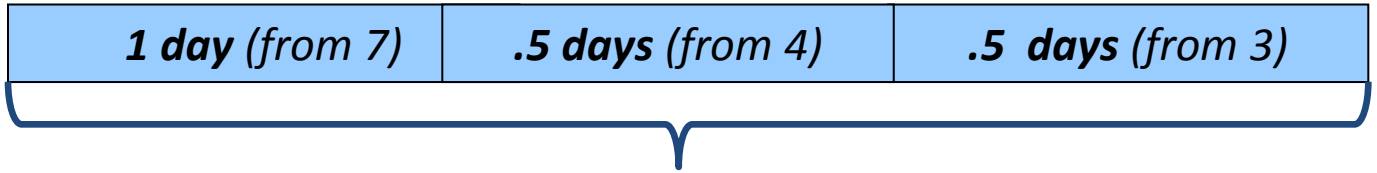


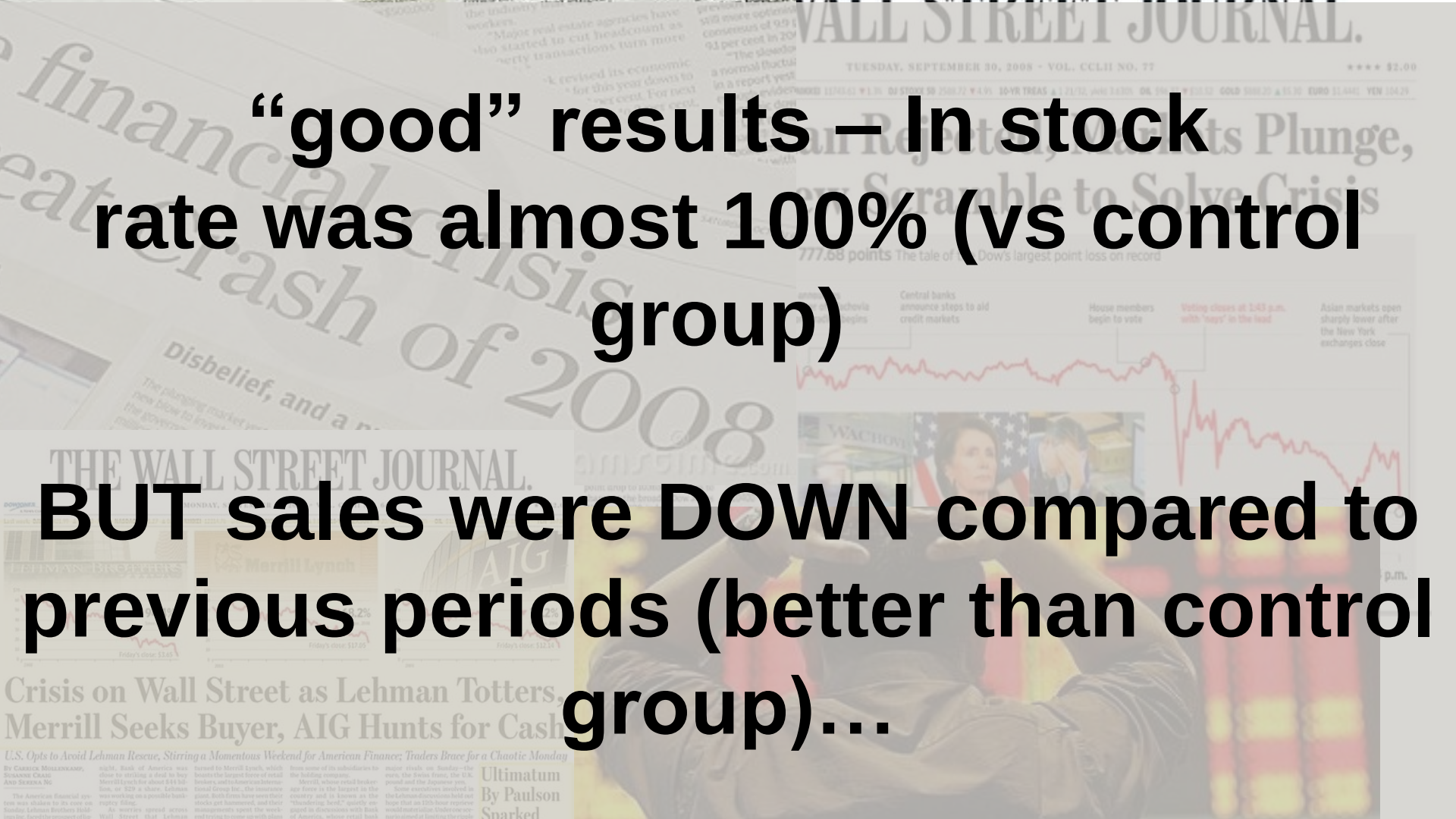
2 Days

Eli pushed for immediate pilot launch

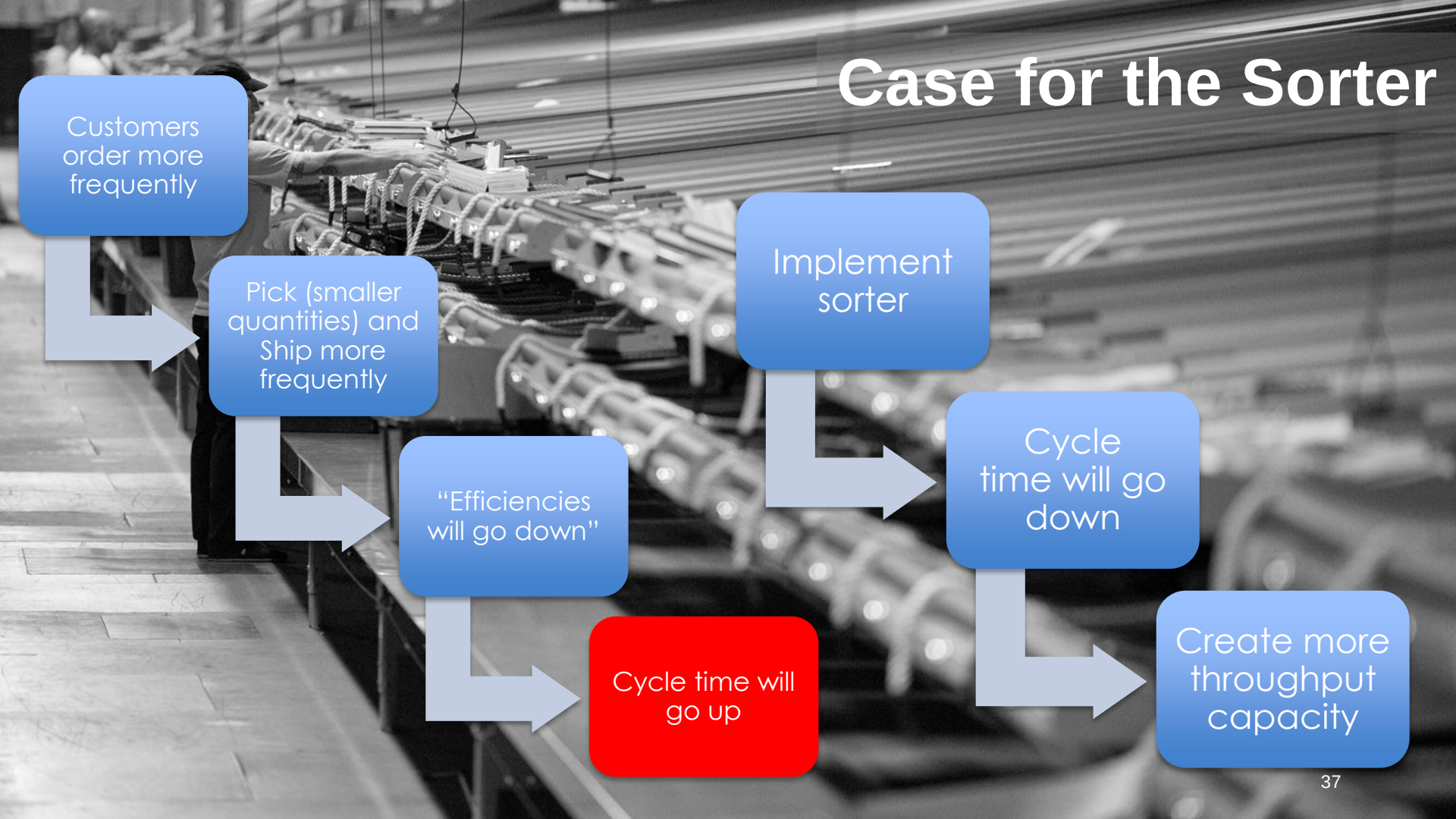
Agreed to Launch Pilots in late August

“good” results – In stock rate was almost 100% (vs control group)

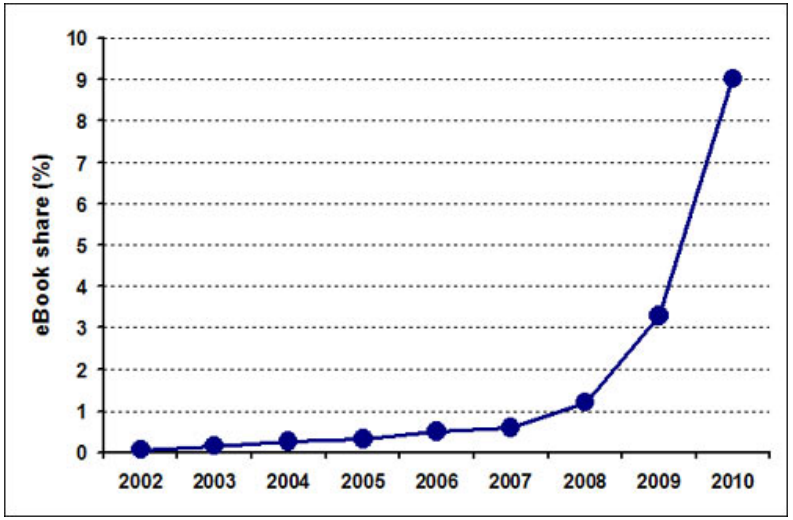
BUT sales were DOWN compared to previous periods (better than control group)…



Case for the Sorter

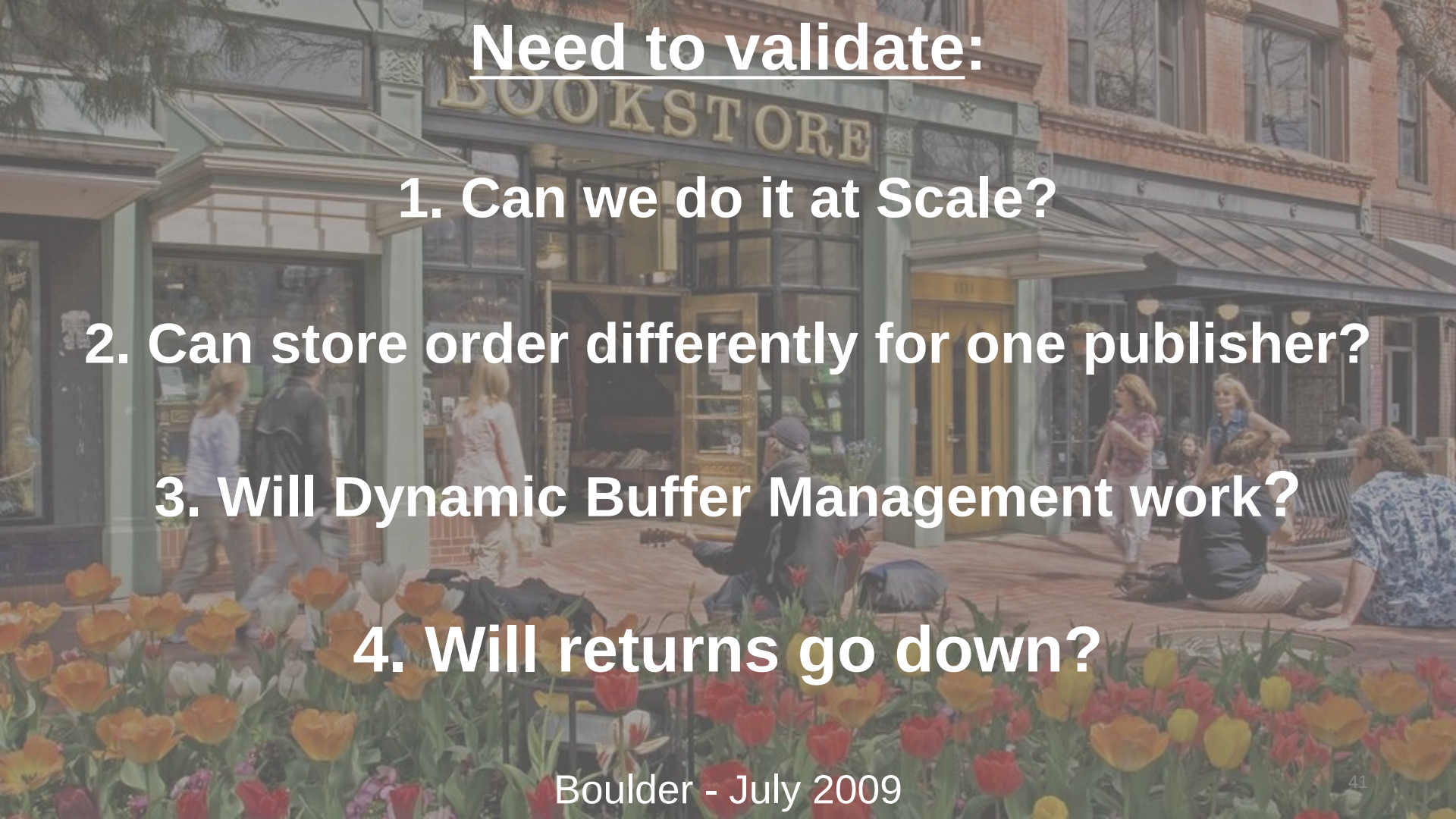


APPROVED
May 2007
May 2008
July 2008
Jan 2009
2017



In the mean time…
Our focus was elsewhere…

Sales
WiN
Fulfillment
WiN
WiN
Book Store
WiN



Need to validate:

1. Can we do it at Scale?

2. Can store order differently for one publisher?

3. Will Dynamic Buffer Management work?

4. Will returns go down?

Here we saw the results Eli was expecting in the first place!

Snowball…

What we did

Convince People

customers,
executives,
sales,
operations

Physical Changes
Warehouse, sorter, shipping

Information System

Really understand the math

Light guidance on how to do it in SAP

Got daily POS and ending inventory

We refined our solution around TWO central themes:

Work to improve R^3 Time with a Customer

Implement Dynamic Buffer Management

Today:

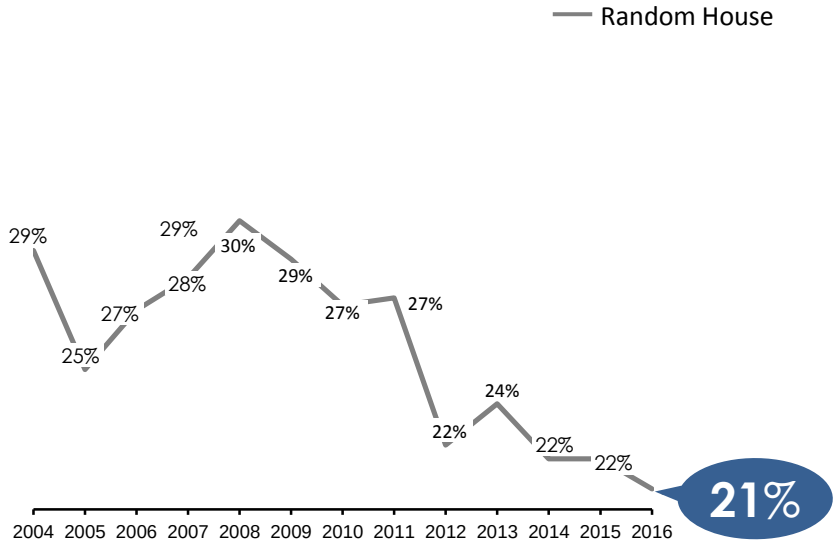
60% of volume is daily orders

80% rapid, reliable replenishment

20%of volume replenished using DBM

US Return Rates

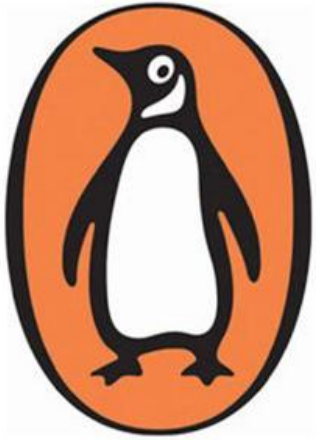
US Physical Dollars Return %



In-stock rates
for customers with DBM
up 3-6%

Sales increases hard to quantify as there was a shift to digital and on-line sales - 1% improvement in sales

Emergency Replenishment from 25% → 3%

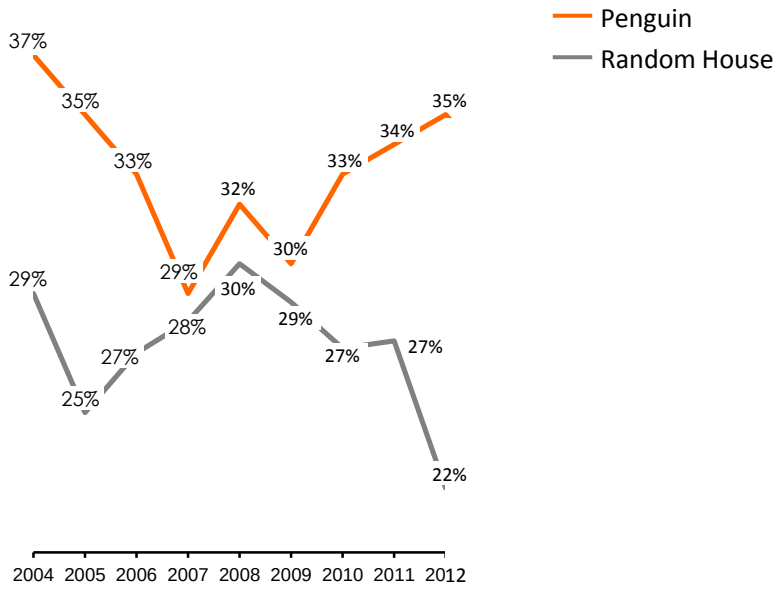


2013

Penguin Random House

US Return Rates

US Physical Dollars Return %



US Return Rates

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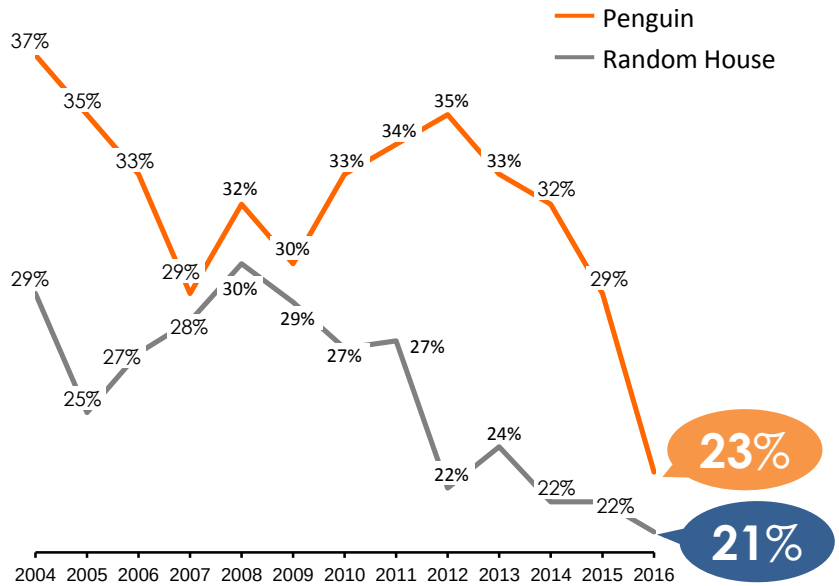
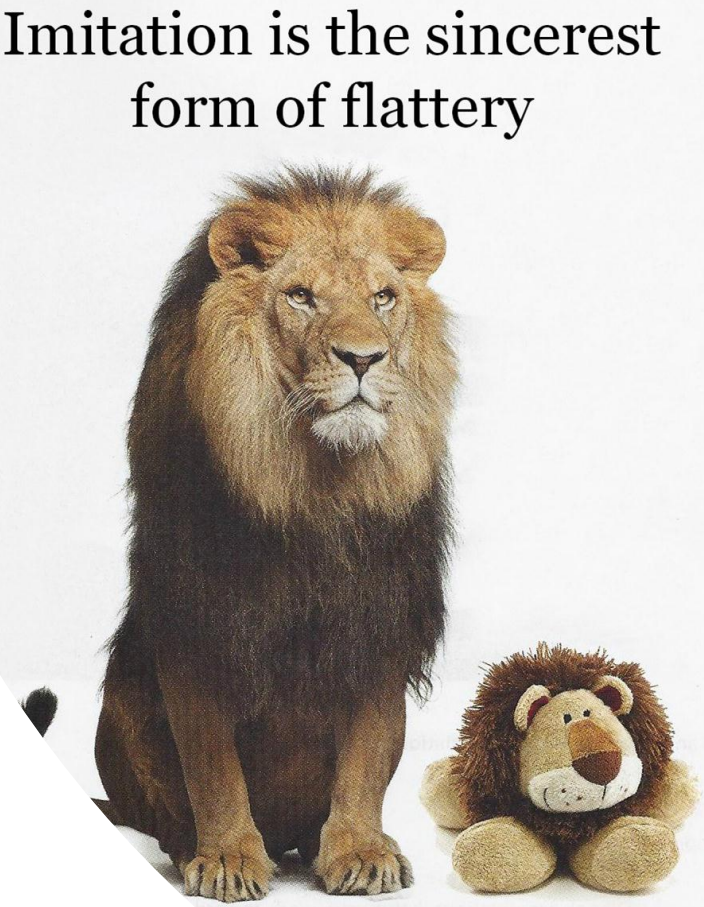


Others introduce “Rapid Replenishments”



BOOKSELLING THIS WEEK

Publishers Offer Rapid Replenishment Programs

Posted on Wednesday, Dec 02, 2015

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Several major publishers are once again offering expedited shipping to indie bookstores this holiday season and, in some cases, beyond. Here's a look at previously announced programs from Hachette, HarperCollins, Macmillan, Penguin Random House, Perseus, and Simon & Schuster.

BOOKSELLING THIS WEEK

Hachette Launches Rapid Replenishment Program

Posted on Thursday, Oct 08, 2015

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Hachette Book Group announced on Tuesday that it has created a new rapid replenishment program for independent retailers in good standing within the continental U.S.

hachette BOOK GROUP

Disruption
Ahead

The Plot Twist: E-Book Sales Slip, and Print Is Far From Dead

By ALEXANDRA ALTER SEPT. 22, 2015

Penguin Random House last year doubled the size of its distribution center in Crawfordsville, Ind., to speed up book distribution. A J Mast for The New York Times

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I'd like to join my voice to
one other than Eric Schmi
think ...

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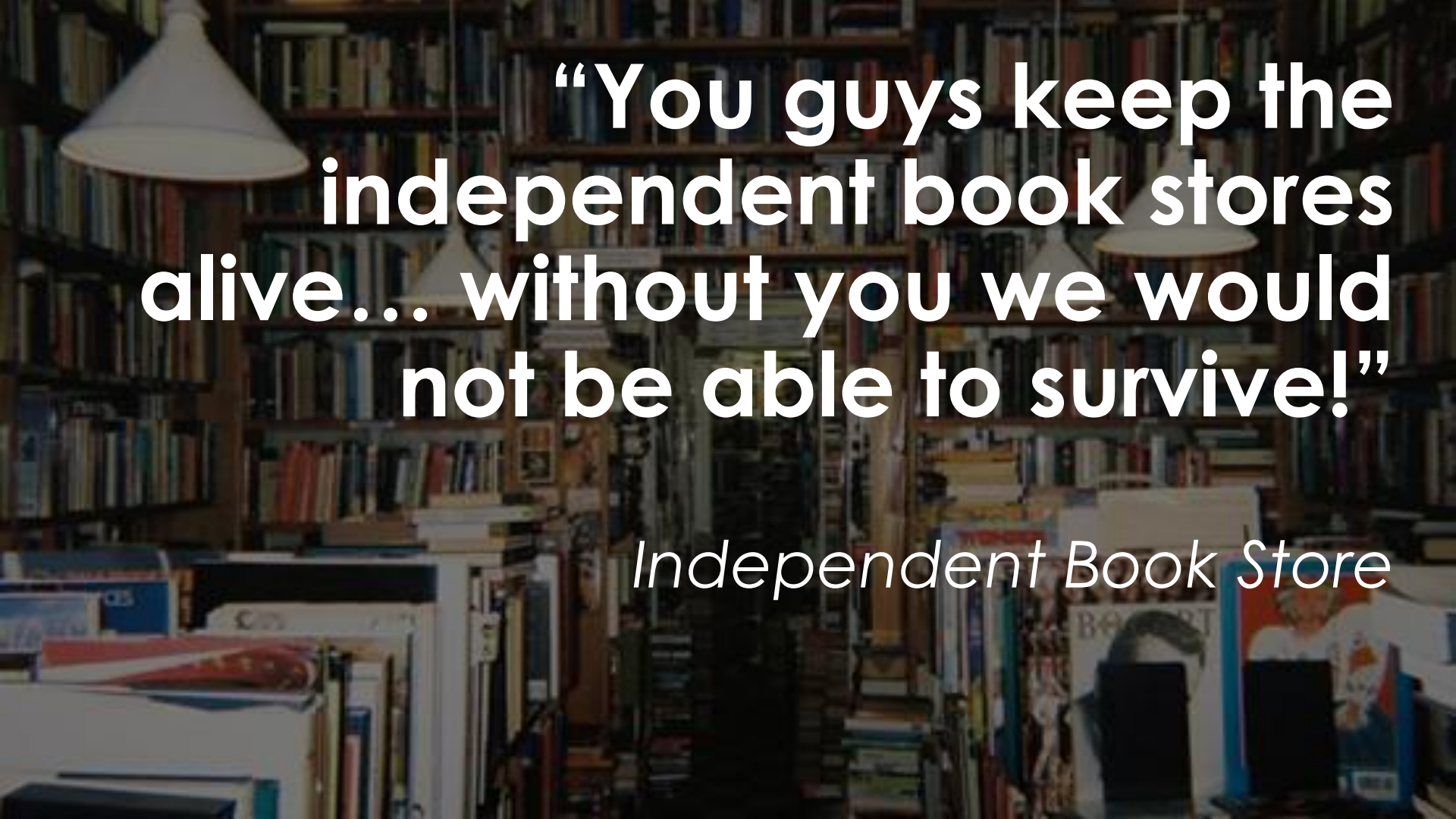
and less weight is easier o
become true as...

Michael J Edwards Septe
If you read this article care
on sales of ebooks include
traditional...

SEE ALL COMMENTS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Independent Book Store

THE STORY